Overview of DoD Industrial Policy Mission and Function

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Overview

- Industrial Mission
- Environment
- Strategic Assessment Methodology
- Current Focus

Industrial Mission

Industrial Policy's Mission

- Sustain an environment that ensures the industrial base on which the Department of Defense (DoD) depends is reliable, cost-effective, and sufficient to meet DoD requirements.

- Specifically, ODUSD(IP) is responsible to ensure that DoD policies, procedures, and actions:
  1. Stimulate and support vigorous competition and innovation in the industrial base supporting defense; and
  2. Establish and sustain industrial and technological capabilities that assure military readiness.

AT&L Goals

1. High Performing, Agile and Ethical Workforce
2. Strategic and Tactical Acquisition Excellence
3. Focused Technology to Meet Warfighting Needs
4. Cost-Effective Joint Logistics Support for the Warfighter
5. Reliable and Cost-Effective Industrial Capabilities Sufficient to Meet Strategic Objectives
6. Improved Governance and Decision Processes

Goal 5 Outcomes

5.1 Effects of DoD policy and program decisions on the industrial base, and the extent to which industry decisions limit or expand DoD options, understood.

5.2 DoD research and development, acquisition, and logistics decisions expand and sustain the industrial base to encourage competition and innovation for essential industrial and technological capabilities.

5.3 Statutory processes and decisions leveraged to enable a capable, competitive, and reliable industrial base.

5.4 Contract finance and profit policies drive desired results.

Major Levers of Industrial Policy

Exon-Florio/ CFIUS

Hart-Scott-Rodino

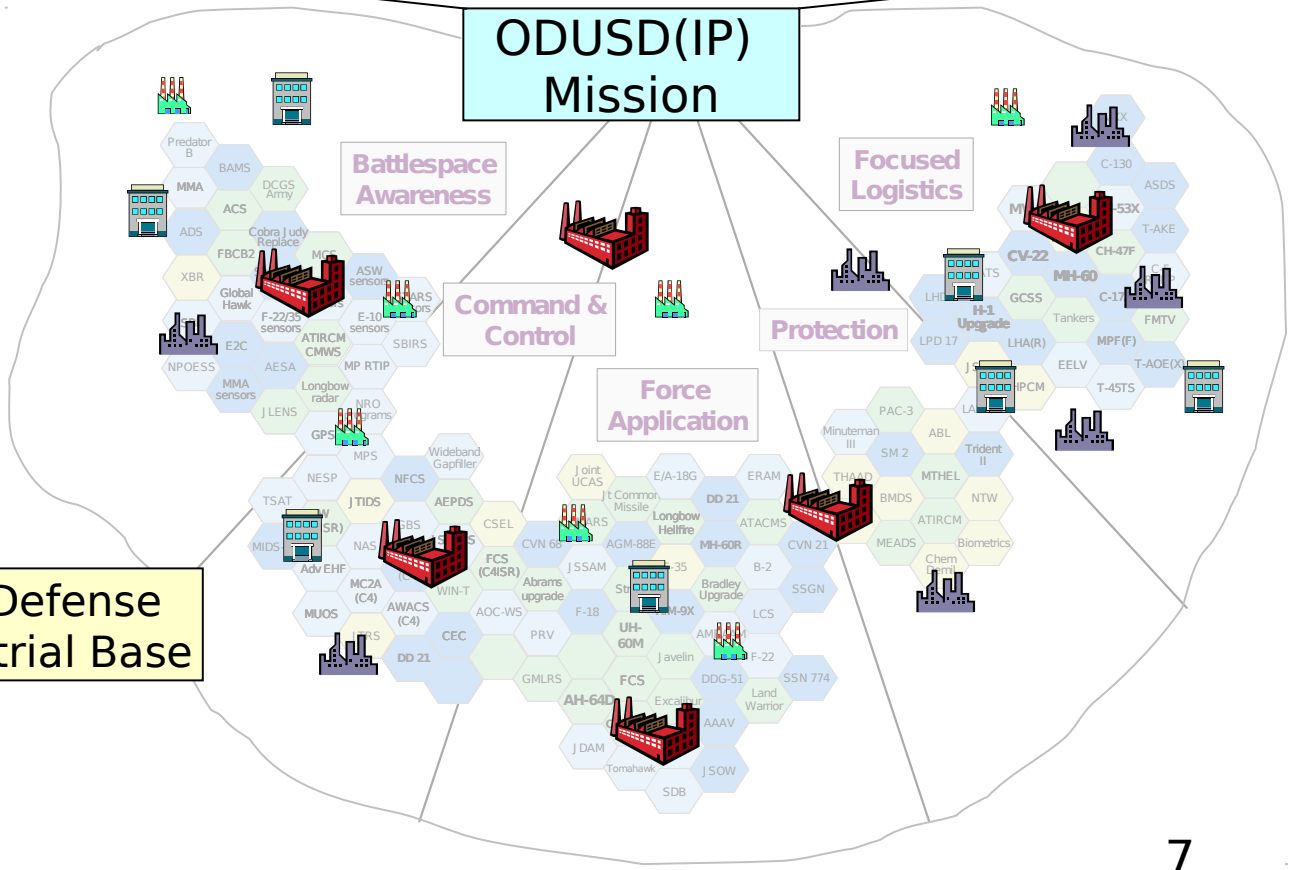
Acquisition Strategies

Defense Industrial Policy

Companies

Programs

ODUSD(IP) Mission



The Defense Industrial Base

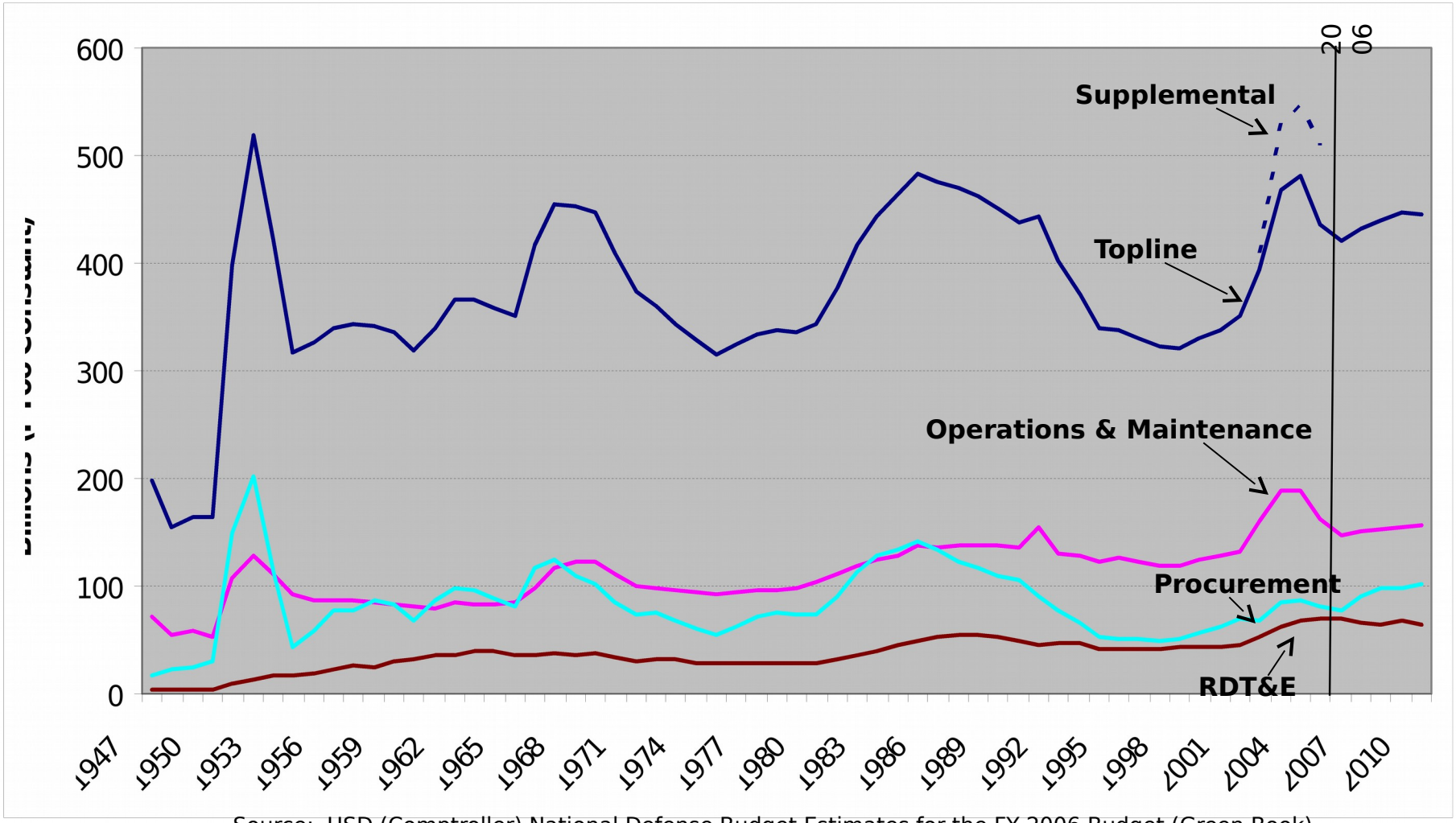
Industrial Sector Assessments

Metric	Measure/ Source	Reliable	Cost-Effective	Sufficient
DoD Funding Levels	Current DoD budget	X	X	X
Delivery Performance	EVM data (e.g., schedule performance index)	X		
Cost Performance	EVM data (e.g., cost performance index)		X	
Technical Performance	Current progress in meeting key performance parameters			X
Company Health	Segment profit margins, R&D and capital investment, foreign direct investment	X		
Workforce	Segment employment data (to include hiring, retention, special skills, etc.)			X
Competitiveness	# of suppliers, non-defense sales (dual-use), export sales, etc.		X	
Problem Areas	Sick suppliers, capability gaps, capacity (peacetime, surge)			X

Environment

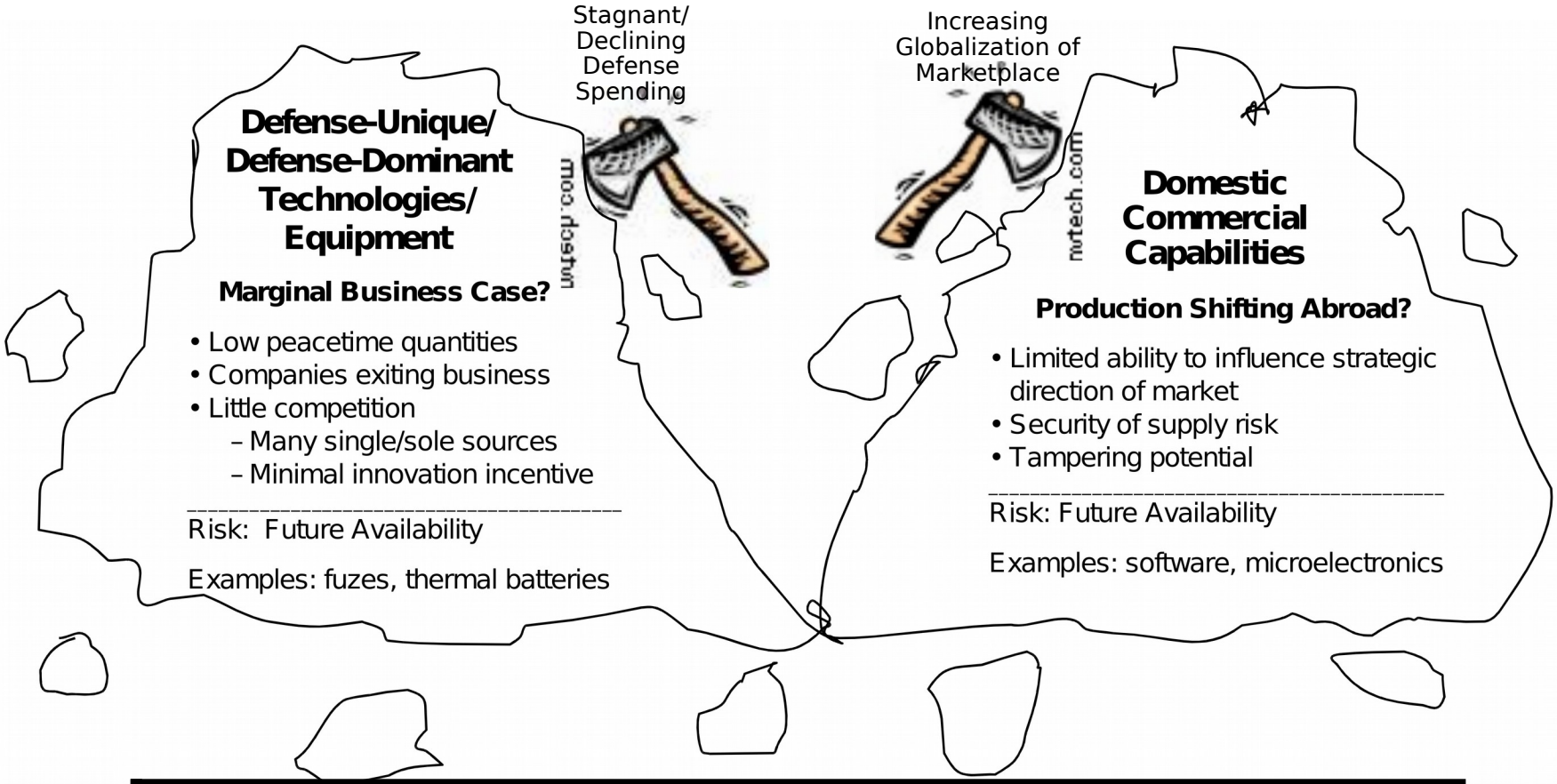
Defense Budget Trends

(DoD Budget Authority)



Source: USD (Comptroller) National Defense Budget Estimates for the FY 2006 Budget (Green Book)

Emerging Industrial Environment



Stagnant/declining defense spending coupled with increasing globalization is leading to an emerging industrial environment that has significant defense implications.

Foreign Sources of Supply

Summary of All Awards to Foreign Entities						
	# of Competitive Contracts	Value of Competitive Contracts	# of Non-Competitive Contracts	Value of Non-Competitive Contracts	Total Number of Contracts	Total Value of Contracts
FY 2003	1,079	$ 450,663,875	1,218	$ 564,908,551	2,297	$ 1,015,572,426 **(~1.5% of total)**
FY 2004	917	$ 451,354,502	1,214	$ 1,046,077,739	2,131	$ 1,497,432,241 **(~2.0% of total)**
FY 2005	1,120	$ [illegible]	1,347	$ [illegible]	2,467	$ 1,890,783,404 **[illegible]% of [illegible]tal)**

U.K. and Canadian firms were prime beneficiaries: ~60% of the total

Foreign Direct Investment in the U.S.

(Millions of Current Dollars)

Foreign Direct Investment in the United States -- Annual Flow			
	1993-1996	**1997-2000**	**2001-2004**
Overall			
Volume	$238,985	$875,215	$383,485
% Change		266%	-56%
Aerospace			
Volume	-$55	$2,306	$4,568
% Change		4293%	98%

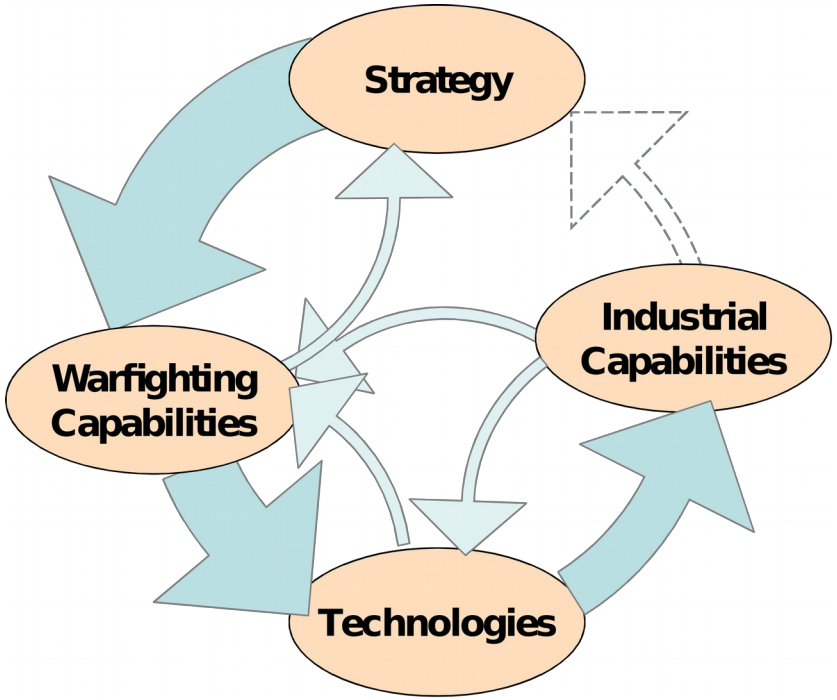
Source: U.S. Department of Commerce, Bureau of Economic Analysis, Aerospace data drawn from NAICS 3364 (Aerospace Product & Part Manufacturing, which includes aircraft, engine, missile, and space systems and parts and auxiliary equipment manufacturing).

Strategic Assessment Methodology

The Capabilities-Based Approach

- The approach enables the linking of defense strategy and vision to industrial policy

- Appropriately focuses industrial base assessments on the warfighting capabilities required—not vice versa



- Further benefits
  - Translates warfighting capabilities into associated technologies and industrial base capabilities, providing important investment guidance to the Department and industry
  - As end-to-end industrial base planning tool, can be adapted by other defense establishments for their own assessments/requirements

Source: Booz Allen Hamilton and ODUSD(IP)

Defining Leadership Goals

Neutral	Position relative to potential adversaries is immaterial.
Equal	Desire capability at least as good as potential adversaries; systems are likely in a common technological generation.
Be Ahead	Desire a significant capability difference over potential adversaries; systems should likely lead by a technology generation or order of magnitude better performance in key attributes.
Be Way Ahead	Desire a very significant capability difference over potential adversaries; systems should likely lead by multiple technology generations or orders of magnitude in performance.

Source: Booz Allen Hamilton and ODUSD(IP)

Joint Staff Functional Concepts

Battlespace Awareness Global Hawk, DCGS, NPOESS, SBIRS-High, E-2 Advanced Hawkeye	Capabilities of commanders and force elements to understand their environment and the adversaries they face. Uses a variety of surveillance capabilities to gather information; a harmonized secure netcentric environment to manage this information; and a collection of capabilities to analyze, understand, and predict.
Command and Control FBCB2, AOC-WS, MPS	Capabilities that exercise authority and direction over forces to accomplish a mission. Involves planning, directing, coordinating, and controlling forces and operations. Provides the means to recognize what is needed and ensure that appropriate actions are taken.
Force Application JDAM, MM III, F/A-22, MH-60R, JSF, CVN21, FCS, GMLRS	Capabilities to engage adversaries with lethal and non-lethal methods across the entire spectrum of conflict. Includes all battlefield movement and dual-role offensive and defensive combat capabilities in land, sea, air, space, and information domains.
Protection ATIRCM/CMWS, PAC-3, Chem Bio	Capabilities that defend forces and U.S. territory from harm. Includes missile defense and infrastructure protection and other capabilities to thwart force application by an adversary.
Focused Logistics C-130, CH-47, GCSS, MPF, T-AKE, C-17, FMTV, MH-60S, C-5 RERP	Capabilities to deploy, redeploy, and sustain forces anywhere in or above the world for sustained, in-theater operations. Includes traditional mobility functions of airlift, sealift, and spacelift as well as short-haul (intra-theater and battlefield) transportation. Also includes logistics C2, training, equipping, feeding, supplying, maintaining and medical capabilities.

Source: Joint Staff Functional Concepts and ODUSD(IP)

DIBCS Methodology: Results for Original Five Functional Concepts

Methodology Execution

List of key *(BA/BWA)* Capabilities	Identify Technology Solutions and Create Technology List	Prioritize Tech List and Down-select Initial Priority Assessment List	Elaborate on Key Components	Assess Industrial Base for Techs and Components

Sector	Total # Capa.	Be Ahead	Be Way Ahead
BA	436	169	188
C2	255	146	43
FA	1036	392	395
Prot	629	323	117
FL	525	254	17
Total	2881	1284	760

Sector	Number Techs
BA	278
C2	293
FA	212
Prot	277
FL	364
Total	1424

Sector	Techs Assessed
BA	31
C2	35
FA	32
Prot	39
FL	43
Total	180

Sector	Components Assessed
BA	41
C2	23
FA	29
Prot	25
FL	15
Total	133

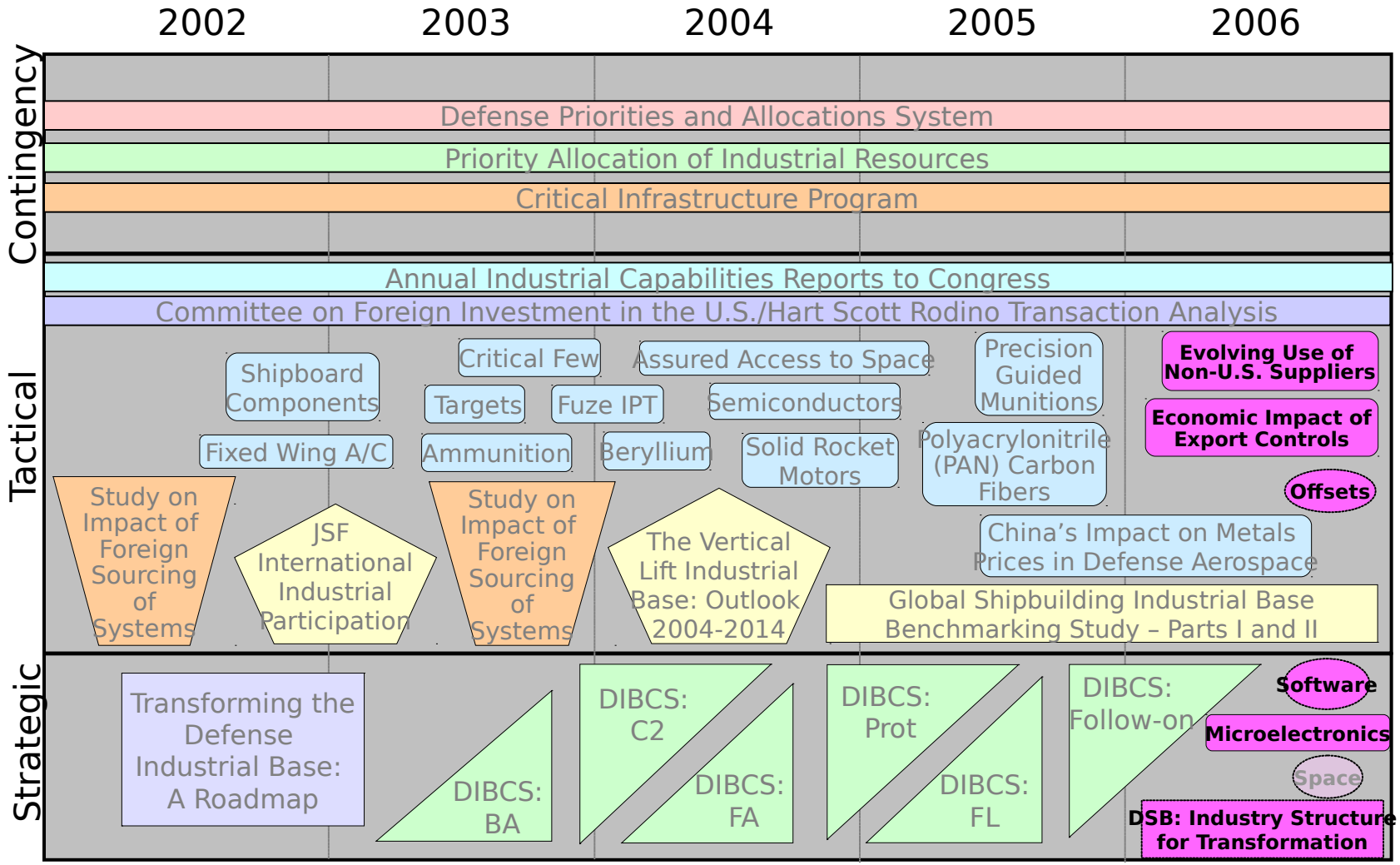
Sector	Techs Sufficient	Potential Issues
BA	69	3
C2	55	3
FA	53	6 +2WL
Prot	55	7 +2WL
FL	52	5
Total	284	24 +4WL

The DIBCS series complements ongoing Department-wide studies by mapping technology and industrial base capabilities to the new functional capabilities construct, providing a comprehensive baseline—and a long forward pass through 2020.

Source: Booz Allen Hamilton and ODUSD(IP)

Current Focus

DUSD(IP) Industrial Base Activities



Industrial Policy's FY06 Focus Areas

- Evolving Use of Non-U.S. Suppliers
  - Impact on U.S. suppliers
  - Affect on foreign nations' system acquisitions
  - Influence on industrial linkages and U.S. access to global marketplace
  - Implications for future true international "best value" competitions
- Export Controls Impact and Way Ahead
  - Identify key indicators, causal relationships, and trends
  - Understand effects on industrial base health
  - Identify potential remedies
- DSB Study – Industry Structure for Transformation
  - Industry change likely and/or desirable due to changing nature of DoD and the industrial base
  - Examine the effectiveness of existing mitigation measures
  - Develop a strategy, if necessary, to ensure adequate future competition and innovation throughout all tiers of the defense industrial base
- Globalization Impacts
  - Microelectronics and printed wire boards
  - Software
  - Offsets

DCMA 2006 Studies

- Material Producer Study
  - Look at steel, aluminum, & titanium producers
  - Identify critical suppliers & bottlenecks
- Domestic Automotive Industries
  - Look at major & sub contractors for combat & tactical vehicles
  - Identify supply interrupts resulting from industry contraction
- Aerospace Industries
  - Look at manned fixed wing aircraft producers
  - Identify gaps between procurement plans and capacity
- Helicopters
  - Look at rotary wing aircraft producers
  - Identify/evaluate major parts/subsystems foreign suppliers
- Propulsion Shafting
  - Look at naval shaft unique manufacturing technologies and processes
  - Identify potential alternate suppliers to the current single source
- Liquid Rocket Engines
  - Look at prime and critical subcontractor reduced workload
  - Identify unique facilities, equipment, and industrial capabilities at risk

The Challenge

1. High Performing, Agile and Ethical Workforce
2. Strategic and Tactical Acquisition Excellence
3. Focused Technology to Meet Warfighting Needs
4. Cost-Effective Joint Logistics Support for the Warfighter
5. Reliable and Cost-Effective Industrial Capabilities Sufficient to Meet Strategic Objectives
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